

FDIC State Profile

Spring 2006

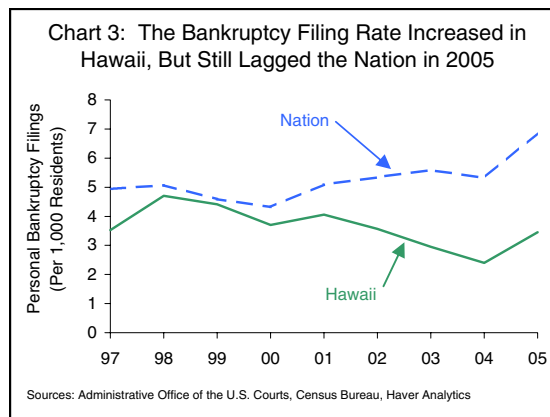
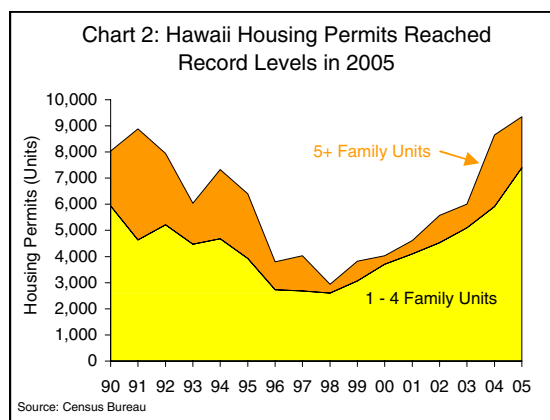
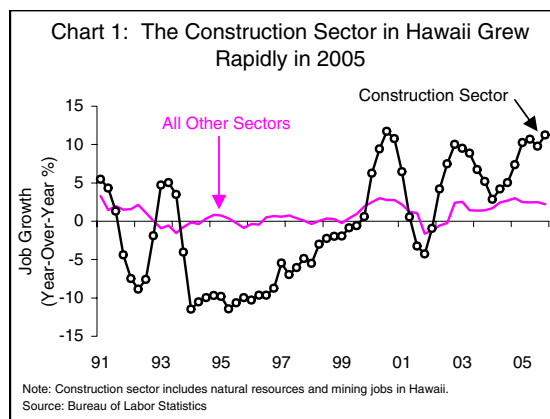
Hawaii

Hawaii's tourism and construction industries drove strong job growth.

- Year-over-year employment growth in Hawaii decelerated slightly in fourth quarter 2005 to 3.0 percent, but still ranked ninth fastest among the states. Growth was propelled by a 14 percent gain in construction jobs (see Chart 1). Consistent with payrolls, the value of private residential and commercial construction in the state surged 28 percent relative to 2004.¹
- The vital tourism industry recorded a banner year with 7.4 million visitors and \$11.5 billion in total visitor expenditures. Visitor activity fed a 2.5 percent year-over-year gain in leisure and hospitality sector jobs in the fourth quarter 2005, a slightly slower pace than one year ago.
- Recent signs of recovery in the Japanese economy bode well for the future of Hawaii's tourism industry. Japanese visitors composed one-fifth of all tourists to the islands and total visitor expenditures in 2005.
- Strength in the building and tourism industries offset weak hiring in the state government, which shed jobs on net during the year.

Rapid home price growth fueled development.

- Home prices appreciated 23.8 percent during the year ending fourth quarter 2005, up from the prior quarter and well above the national average of 13 percent.² Strength in the tourism and construction industries provide support for housing demand, but rising interest rates could dampen future price appreciation of the state's already high-priced housing.
- Permit issuance for 1-4 family residential units increased in 2005; meanwhile, multifamily permits declined slightly but remained near historical highs (see Chart 2). Forecasts from Moody's Economy.com suggest housing permit activity may decline during 2006, which could mute employment gains in the construction sector.



¹Hawaii Department of Business, Economic Development, and Tourism, "Quarterly Statistical & Economic Report," first quarter 2006.

²Based on data from the Office of Federal Housing Enterprise Oversight.

State Profile

- Innovative mortgages and investors may be influencing housing demand.³ Interest-only and negative amortization loans accounted for 40 percent of non-prime mortgage originations in Hawaii in the first 11 months of 2005. During the same period, investors and second-home purchasers accounted for 36 percent of Hawaii Alt-A mortgage originations.

Bankruptcy filings increased during 2005.

- Hawaii's personal bankruptcy rate rose to 3.4 filings per thousand residents in 2005, but remained well below the national pace (see Chart 3). Filing activity increased later in the year prior to the enactment of new bankruptcy legislation in October 2005.
- The median past-due consumer loan ratio among Hawaii-based institutions increased modestly year-over-year to 1.20 percent. Although rising, delinquent consumer loan ratios trailed the nationwide median of 1.77 percent.

A growing share of Hawaii-based institutions report elevated exposures to commercial real estate (CRE).

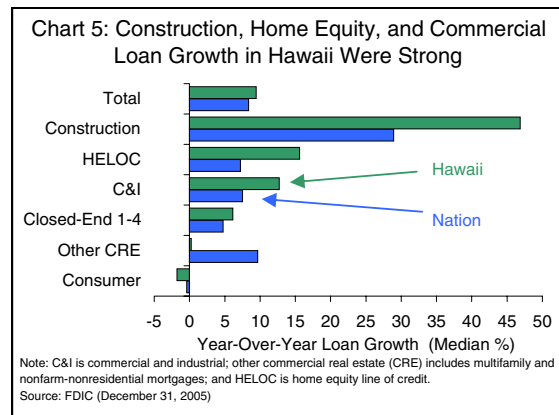
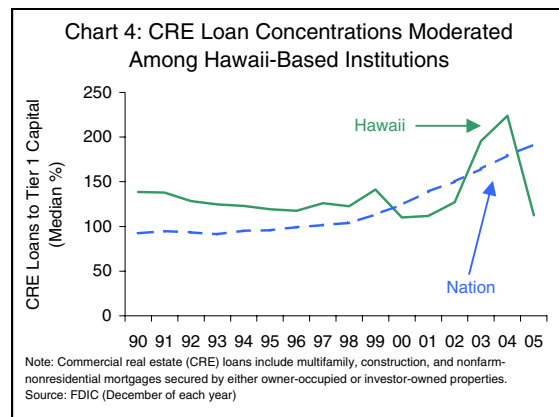
- The median CRE loan⁴-to-Tier 1 capital ratio among Hawaii-based institutions eased to 113 percent, year-over-year, with trends influenced by intrastate merger activity during the period (see Chart 4).
- Strong economic conditions boosted demand for **Honolulu** commercial property during fourth quarter 2005. Occupancy rates across office, industrial, and hotel properties improved relative to third quarter and year-ago levels.⁵
- Although CRE conditions improved and credit quality remains favorable, elevated concentrations of CRE loans may leave some institutions to vulnerable to adverse changes in market conditions.

Rising interest rates pressured bank and thrift net interest margins (NIMs) and investment portfolio values.

- Hawaii-based institutions reported strong, albeit declining, earnings. The median fourth quarter pretax return on assets ratio slipped modestly to 1.66 percent, but still ranked ninth highest nationally. Increases in short-term rates have compressed NIMs among the state's many liability-sensitive large banks and mortgage lenders. NIM

declines more than offset improvements in overhead performance.

- Rising interest rates reduced opportunities for securities sale gains and created net unrealized portfolio losses by year-end 2005. In contrast, portfolios contained minor gains on net in late 2004. Investment portfolios, which represent an important 30 percent of Hawaii bank and thrift balance sheets, may be vulnerable to additional pricing pressure should interest rates rise further.
- Past-due loan levels improved year-over-year to 0.22 percent, the third lowest delinquency rate among the states.
- Median year-over-year loan growth of 9.5 percent improved from a year-earlier rate of 6.5 percent and slightly outpaced the nationwide median of 8.4 percent. C&I, home equity, and commercial and industrial portfolios continued to increase faster than other major loan categories (see Chart 5).



³Based on subprime and Alt-A private mortgage securitizations tracked by LoanPerformance. Alt-A loans include mortgages that have near-prime credit quality, lack full loan documentation, or are secured by investor properties.

⁴Commercial real estate loans include construction, multifamily, and nonfarm-nonresidential mortgages.

⁵Based on office data from Torto Wheaton Research and warehouse and hotel data from Property & Portfolio Research.

Hawaii at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	3.0%	3.2%	3.6%	2.8%	1.9%
Manufacturing (3%)	-0.2%	-1.1%	-0.2%	2.5%	-1.4%
Other (non-manufacturing) Goods-Producing (6%)	14.1%	13.7%	8.7%	5.3%	7.5%
Private Service-Producing (72%)	3.5%	3.4%	4.1%	3.2%	2.0%
Government (20%)	-0.9%	0.2%	1.4%	0.8%	1.0%
Unemployment Rate (% of labor force)	2.7	2.7	3.1	3.3	3.9

Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	6.5%	10.2%	8.0%	4.8%
Single-Family Home Permits	32.1%	16.7%	-8.9%	12.8%	14.4%
Multifamily Building Permits	-8.4%	74.4%	842.0%	198.8%	-16.2%
Existing Home Sales	-13.6%	7.6%	-2.1%	3.2%	22.4%
Home Price Index	23.8%	21.9%	25.2%	22.7%	11.0%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	4.68	3.71	2.30	2.40	2.96

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	7	7	8	8	8
Total Assets (in millions)	36,239	35,675	34,175	34,175	31,928
New Institutions (# < 3 years)	0	0	0	0	0
Subchapter S Institutions	0	0	0	0	0

Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.22	0.43	0.57	0.57	0.86
ALLL/Total Loans (median %)	1.47	1.51	1.63	1.63	1.86
ALLL/Noncurrent Loans (median multiple)	11.07	8.89	6.29	6.29	4.65
Net Loan Losses / Total Loans (median %)	0.06	-0.01	0.00	0.05	0.08

Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	8.17	7.90	7.46	7.46	8.21
Return on Assets (median %)	1.03	1.10	1.10	1.29	1.48
Pretax Return on Assets (median %)	1.66	1.80	1.70	1.96	2.32
Net Interest Margin (median %)	4.45	4.41	4.41	4.24	4.50
Yield on Earning Assets (median %)	5.99	5.74	5.31	5.16	5.51
Cost of Funding Earning Assets (median %)	1.69	1.46	1.16	0.84	1.24
Provisions to Avg. Assets (median %)	0.01	0.02	0.00	0.01	0.04
Noninterest Income to Avg. Assets (median %)	0.85	0.86	0.81	0.77	1.01
Overhead to Avg. Assets (median %)	2.40	2.46	3.12	2.54	2.82

Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	60.4	56.6	56.4	56.4	62.7
Noncore Funding to Assets (median %)	29.7	29.1	26.5	26.5	22.1
Long-term Assets to Assets (median %, call filers)	21.0	20.6	19.9	19.9	27.6
Brokered Deposits (number of institutions)	3	3	3	3	3
Brokered Deposits to Assets (median % for those above)	0.2	0.2	0.1	0.1	0.0

Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	111.1	101.6	110.8	110.8	116.0
Commercial Real Estate	112.5	122.2	224.0	224.0	195.5
<i>Construction & Development</i>	36.3	30.8	36.6	36.6	26.0
<i>Multifamily Residential Real Estate</i>	13.3	13.7	8.7	8.7	9.4
<i>Nonresidential Real Estate</i>	70.2	77.8	118.7	118.7	116.9
Residential Real Estate	182.5	184.7	234.8	234.8	293.0
Consumer	21.4	19.8	33.6	33.6	31.0
Agriculture	0.6	0.3	0.7	0.7	0.9

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Honolulu, HI	10	19,617	< \$250 million	0 (0%)
			\$250 million to \$1 billion	2 (28.6%)
			\$1 billion to \$10 billion	3 (42.9%)
			> \$10 billion	2 (28.6%)